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Fixed income markets were fairly subdued in August even as the Delta variant cast a shadow over end-of-summer travel plans and jeopardized return-to-office timelines. The economic recovery showed few signs of slowing amid better than expected payroll data and resilience in the consumer sector. Investors signaled confidence that any near-term challenges or disruption would ultimately do little to alter the broader recovery narrative.

Federal Reserve Chair Powell's speech at the Jackson Hole symposium struck an accommodative tone and seemed crafted to reassure markets that the path toward policy normalization would be a gradual one. Powell acknowledged that "substantial progress" had been achieved on inflation, but not yet in the labor market. So while tapering is still expected to commence near the end of the year, Powell emphasized that it should not be regarded as an immediate precursor to rate hikes.

Treasury rates were little changed, with intermediate maturities slightly underperforming both short and long rates. Inflationary pressures showed some signs of easing, but breakevens barely moved. Real yields, meanwhile, rose modestly but nevertheless remain deeply in negative territory and not far from historic lows. The futures market continues to reflect expectations that the Fed's first rate hike will occur near the end of 2022.

Corporate spreads traded in a fairly narrow range and ended the month little changed. Issuance remained brisk as companies took advantage of low rates to refinance higher-cost debt, but supply was generally well received by investors eager for yield. Credit rating agency upgrades continued to reflect a strong upward bias across the quality spectrum, as credit metrics showed further signs of improvement and evidence of financial distress was exceedingly scarce.

Mortgage-backed securities slightly underperformed Treasuries, with spreads widening on taper concerns. Lower than expected prepayment speeds mitigated this headwind somewhat, even as mortgage rates remain near historic lows. Relative value continues to be most compelling in higher coupons ahead of the taper. The Fed has focused on purchasing lower coupons, so they should shoulder the bulk of spread volatility into year end.

Virus-related disruptions and supply chain challenges are likely to keep headline risk elevated in the months ahead, but the underlying recovery narrative nevertheless appears broadly intact. The Fed seems wary of taking any steps that could prematurely stifle the labor market recovery, while both corporations and consumers continue to demonstrate remarkable durability. As a result, investors could face near-term pockets of volatility as the economy continues its slow grind back to normalcy.

U.S. Treasury Market - August 31, 2021

Maturity	8/31/21	Yield Change (bps)			Performance		
	Yield	MTD	QTD	YTD	MTD	QTD	YTD
2-year	0.21%	+2	-4	+9	0.02%	0.19%	0.06%
5-year	0.78%	+9	-11	+42	-0.28%	0.74%	-1.06%
10-year	1.31%	+8	-16	+39	-0.42%	1.77%	-2.47%
30-year	1.94%	+4	-15	+29	-0.28%	3.82%	-5.78%

Source: Bloomberg, FactSet

Performance represents total returns of the Bloomberg Barclays U.S. Treasury Bellwethers Index for the maturities shown

INDEX CHARACTERISTICS AND PERFORMANCE

August 31, 2021	CHARACTERISTICS			PERFORMANCE		
Index	Yield to Worst	OAD (Years)	OAS (bps)	MTD	QTD	YTD
Bloomberg Barclays U.S. Aggregate Bond	1.42%	6.65	35	-0.19%	0.93%	-0.69%
U.S. Treasury	0.86%	7.16	-1	-0.17%	1.18%	-1.43%
Bloomberg Barclays U.S. Government Related	1.23%	6.09	39	0.08%	0.93%	-0.27%
Bloomberg Barclays U.S. Corporate Investment Grade	1.99%	8.78	87	-0.30%	1.06%	-0.22%
Bloomberg Barclays U.S. Mortgage-Backed Securities	1.71%	4.16	33	-0.16%	0.46%	-0.31%
Bloomberg Barclays U.S. Asset-Backed Securities	0.51%	2.21	27	-0.01%	0.20%	0.38%
ICE BofAML Fixed Rate Preferred Securities	2.32%	4.74	115	0.05%	0.27%	2.27%
Bloomberg Barclays High Yield	3.87%	3.87	288	0.51%	0.90%	4.55%
Bloomberg Barclays High Yield - BB	2.97%	4.66	203	0.56%	1.30%	4.05%
Bloomberg Barclays High Yield - B	4.31%	3.05	327	0.41%	0.50%	3.86%
Bloomberg Barclays High Yield - CCC	6.23%	2.65	520	0.49%	0.23%	7.44%
Bloomberg Barclays High Yield BB 1-5 Year	2.18%	2.27	173	0.45%	0.61%	3.49%

Source: FactSet

August 31, 2021	CHARACTERISTICS		
Strategy	Yield to Worst	Current Yield	OAD (Years)
GW&K Short-Term Focused High Income Strategy	2.80	4.98	3.02
<i>Bloomberg Barclays High Yield BB 1-5 Year</i>	2.18	5.12	2.27
GW&K Corporate Bond Opportunities Strategy	2.97	4.48	5.51
<i>60% Bloomberg Barclays High Yield / 40% Bloomberg Barclays U.S. Credit</i>	3.09	4.50	5.73
GW&K Total Return Bond Strategy	2.45	4.12	5.94
<i>60% Bloomberg Barclays Govt/Credit / 40% Bloomberg Barclays High Yield</i>	2.33	3.50	6.16
GW&K Enhanced Core Bond Strategy	1.96	3.59	6.23
GW&K Core Bond Strategy	1.75	3.20	6.29
<i>Bloomberg Barclays U.S. Aggregate Bond</i>	1.42	2.34	6.65
GW&K Intermediate Taxable Bond Strategy	1.50	3.26	3.97
<i>Bloomberg Barclays U.S. Intermediate Aggregate Bond</i>	1.15	2.17	4.19
GW&K Short-Term Taxable Bond Strategy	0.81	2.68	2.93
<i>Bloomberg Barclays 1-5 Year Govt/Credit</i>	0.52	1.72	2.78

Source: Bloomberg, FactSet



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